A Focus on Job Creation in Tennessee

Presented to

Tennessee State Funding Board

Presented by

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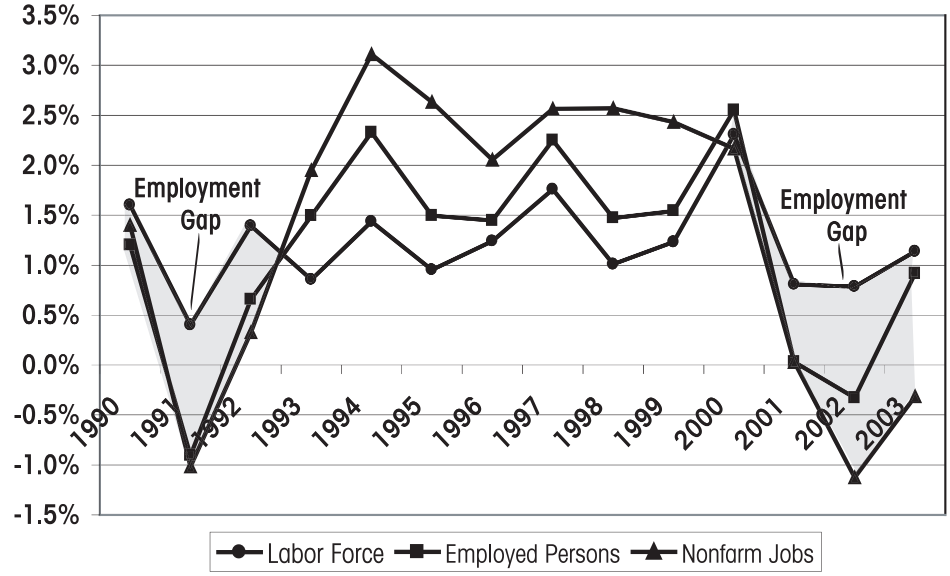
Background

In the December 9, 2003, State Funding Board meeting, numerous questions arose about the status of the Tennessee labor market, particularly the impact of a jobless recovery on state tax revenues. This report focuses on the labor market conditions that workers face in Tennessee. To the extent that the state depends upon consumption and other earned income taxes, state tax revenues will depend upon the employment and income opportunities generated throughout the state. The tax implications of earned income reductions associated with jobs losses and outsourcing are becoming a new national concern.[1] Ultimately, the impact of any "race to the bottom" could be devastating for the U.S. The crowding of domestic labor markets will drive down wages and eventually consumption as more workers compete for a reduced number of jobs. Concern about deflation expressed by Alan Greenspan could be a reality in an economy that is either stagnant or declining. Deflation in manufacturing prices and in other sectors is already a reality. As the world economy restructures, those states and areas with a diverse economic base and an educated workforce will find the transition process easiest to complete.

Clearly, not all recessions, recoveries, or business cycles are the same. The severity, duration, and speed of recovery are as unique as the combination of causes of each business cycle. Charts 1 and 2 contain data on the labor force and employment conditions in the U.S. and in Tennessee since 1990. The short duration of the 1990-1991 recession was followed by one of the longest and strongest periods of economic expansion ever experienced by the nation. It is easy to identify the differences in the growth of the labor force and the growth in employment and jobs during this period. While the labor force declines in recession periods because of discouragement, the declines in employment and job measures are even more severe. During recessions, the gap between the labor force and employment growth trends generates pressure on the labor market, causing higher unemployment and negative pressure on wages. The growth in the gap is evident in both the U.S. and Tennessee data. The fluctuations in growth rates, particularly evident in Tennessee, reflect both

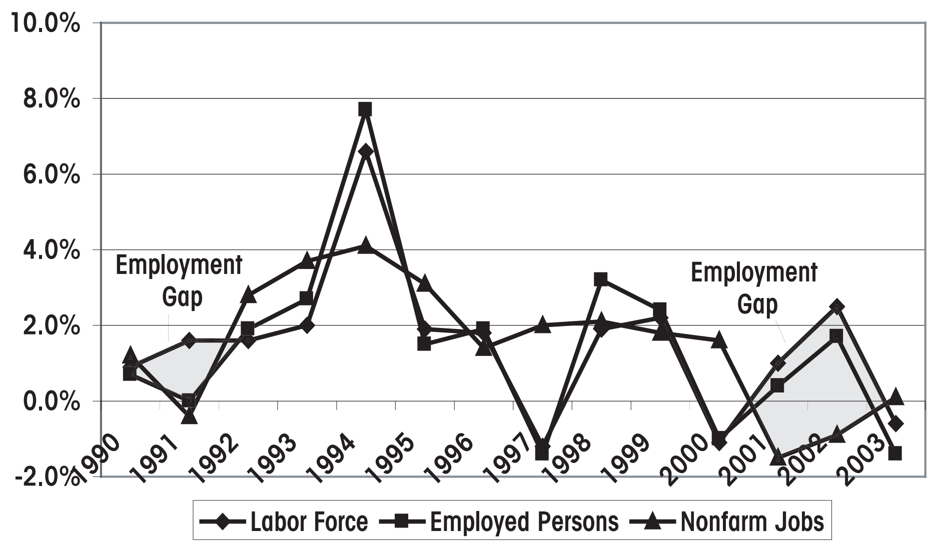
[1] Rachel Konrad, "Offshoring Poses Costly Questions for U.S. Revenues," *The Commercial Appeal*, April 8, 2004.

Chart 1. Growth in U.S. Labor Force, Employed Persons, and Nonfarm Jobs, 1990-2003 (Percent Change Over Prior Year)



Source: Bureau of Labor Statistics.

Chart 2. Growth in Tennessee Labor Force, Employed Persons, and Nonfarm Jobs, 1990-2003 (Percent Change Over Prior Year)



Source: Bureau of Labor Statistics.

changing and divergent market conditions and the accuracy of measurement techniques. The smaller the state or locality, the more sensitive the area is to minor fluctuations in the data and the economy.

When the economic downturn started in 2000-2001, the confluence of a series of structured and cyclical factors caused the recovery period to be more prolonged than most economists anticipated. The length of the recovery period was associated with structural changes in production processes, productivity gains, and outsourcing decisions. The pronounced changes in wealth, unearned income, corporate profits, and investments caused a dramatic reduction in demand for goods and services, particularly impacting employment and investments in plant and equipment.

Tennessee was not spared from the destruction caused by these broad changes. Most communities throughout the state saw employers close, layoffs increase, and unemployment rates rise. Many Tennessee communities had already been hard hit by multiple periods of employment declines before the nation entered into the 2001 recession. Employment in Tennessee started to decline in 1999, two years before it did in the nation, and started to rebound in 2001 and 2002, while the nation slipped deeper into an employment recession. The 2003 employment declines in Tennessee may be a negative sign for the nation in 2005 if the general patterns continue.

Table 1 and Chart 3 contains employment data for the U.S., Tennessee, and Tennessee MSAs for 1990-2003. The chart indicates that most of the Tennessee cities have created no net new jobs since the 2001 recession started. But, most of the state has survived without catastrophic job losses during the prolonged recovery. Unfortunately, many of the job losses have been in rural areas frequently dependent upon manufacturing employers.

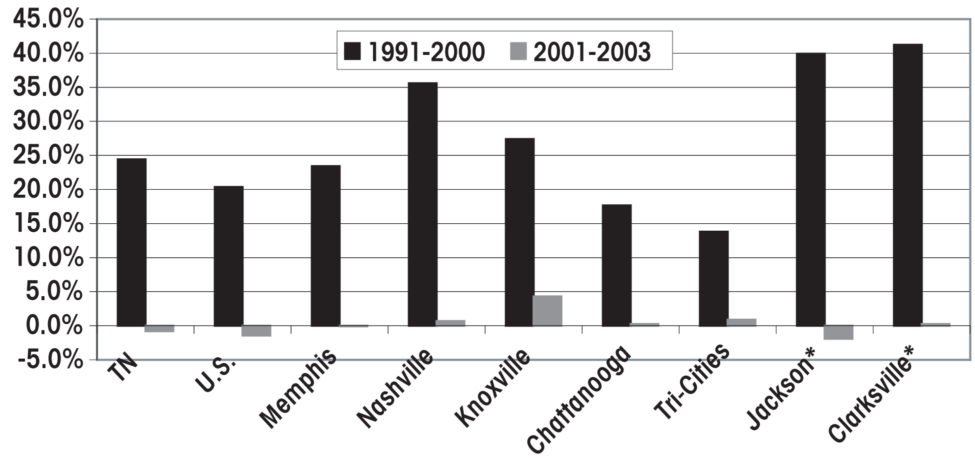
Table 2 contains data on the cycles in manufacturing production. The most glaring feature of the current recession in manufacturing is its length.

Table 1. Job Growth for Tennessee, the U.S., and Tennessee MSAs, 1991-2003

	Tennessee	U.S.	Memphis	Chattanooga	Clarksville-Hopkinsville	Jackson	Knoxville	Nashville	Tri-Cities*
1991-2000	24.4%	20.4%	23.4%	17.7%	41.2%	39.9%	27.4%	35.6%	13.8%
2001-2003	-0.8%	-1.4%	-0.1%	0.3%	0.2%	-1.9%	4.3%	0.7%	0.9%

Note: All data are from December 2003. Jackson is the exception and is a 2001 average.
Source: Tennessee Department of Labor and Workforce Development.

Chart 3. Job Growth for Tennessee, the U.S., and Tennessee MSAs, 1991-2003



*Household data were used for Jackson and Clarksville.

Source: Bureau of Labor Statistics.

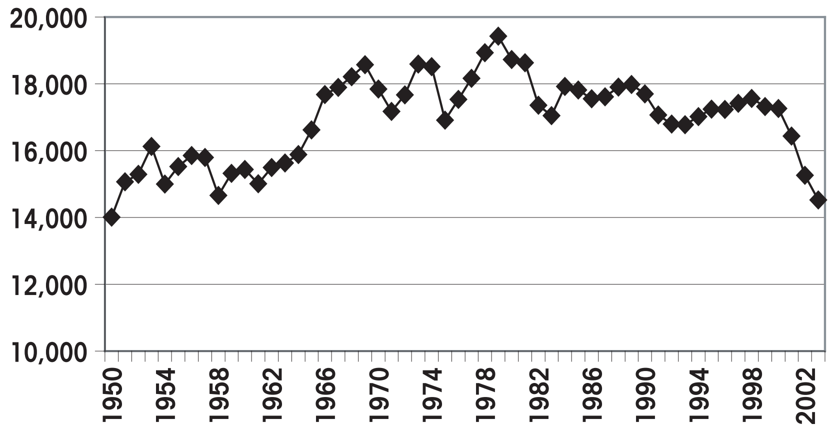
Table 2. Cycles in Manufacturing Production

Business Cycle Peak	Business Cycle Trough	Total Decline in Production	Length of Decline in Months	Months to Regain Previous Peak
June 2000	December 2001	-6.8%	18	50
March 1990	March 1991	-4.5%	12	25
July 1981	December 1982	-9.7%	17	26
June 1979	July 1980	-9.3%	13	25
November 1973	April 1975	-15.3%	17	38
August 1969	November 1970	-8.6%	15	29
January 1960	February 1961	-9.9%	13	22
February 1957	April 1958	-14.5%	14	24
July 1953	April 1954	-10.2%	9	20
July 1948	October 1949	-8.8%	15	21

Some concern exists that the 50-month recovery period may reflect permanent structural shifts instead of anticipated cyclical production patterns. Interestingly, U.S. manufacturing employment started to decline long before the beginning of the latest manufacturing production cycle (Chart 4). In fact, the most recent declines in manufacturing employment started in 1998 and have intensified since 2001.

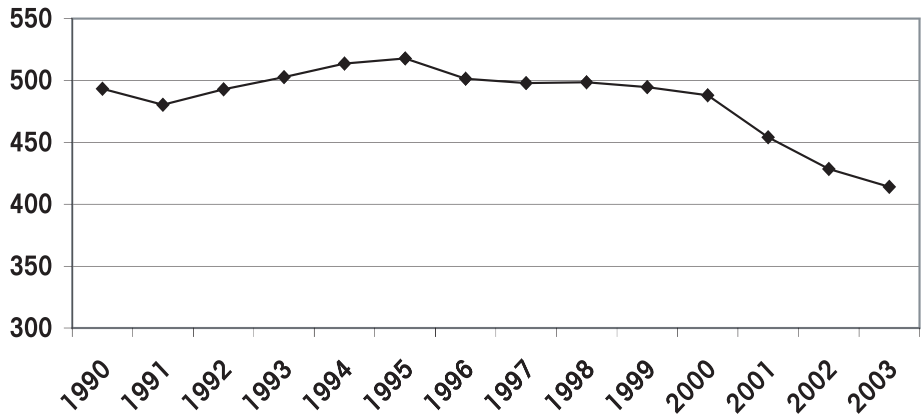
Charts 5 and 6 identify the timing of the manufacturing employment declines in Tennessee and its major urban areas. The declines started slowly

Chart 4. U.S. Manufacturing Employment, 1950-2003 (000)



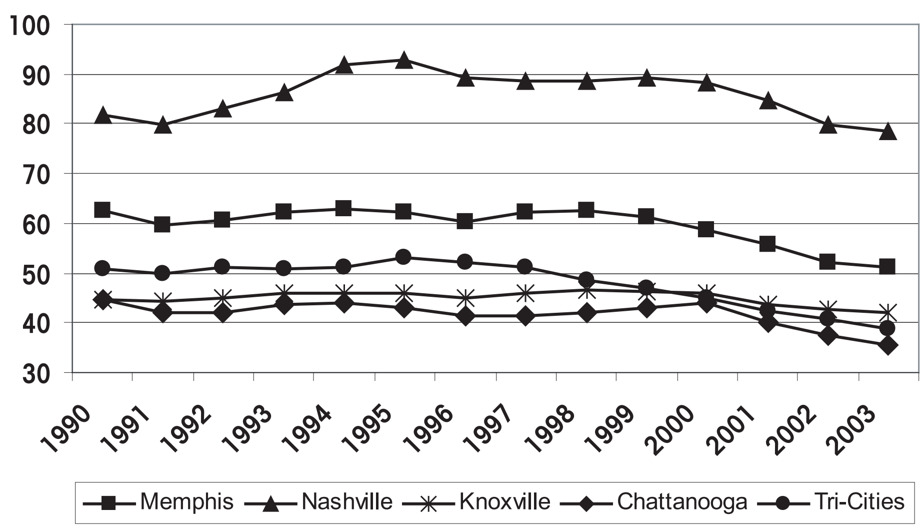
Source: Bureau of Labor Statistics.

Chart 5. Tennessee Manufacturing Employment, 1990-2003 (000)



Source: Bureau of Labor Statistics.

Chart 6. Manufacturing Employment, Tennessee MSAs, 1990-2003 (000)



Source: Bureau of Labor Statistics.

in the mid-1990s and intensified in 2000-2003. The nearly 100,000 manufacturing jobs lost statewide in the last 10 years tell a dismal story for the economy of Tennessee. In general, those areas of the state with the highest percentage of college graduates and the least dependence on manufacturing employment did the best during the last three years (see Tables 3 and 4). Concern should exist about the education gap evident between Tennessee cities. Nashville had 26.9 percent of its over-25 population with at least one college degree, while the Tri-Cities and Clarksville-Hopkinsville MSAs had 17.0 percent or less.

Outlook

Numerous examples exist which clearly demonstrate that plant closures and layoffs are continuing in Tennessee. The following citations are a few of the most recent announcements:

Sparta, TN

"Nearly 500 people will lose their jobs as Emerson Appliance Controls, the town's largest employer, closes its plant by June 2005, officials said.
The 492 jobs will be phased out starting in a few months..."

—*Chattanooga Times Free Press*
April 8, 2004

Covington,TN

"Pressured by the growing competition in the weight loss industry, Slim-Fast Foods Co. will lay-off today 116 employees in Covington.
The layoffs are 29 percent of the 400 employees who work at the manufacturing plant making the Slim-Fast ready-to-drink beverages."

—*The Commercial Appeal*
March 12, 2004

Table 3. Educational Attainment of the Population 25 Years and Over for Tennessee and Tennessee MSAs

	Tennessee	Memphis	Chattanooga	Clarksville-Hopkinsville	Jackson	Knoxville	Nashville	Tri-Cities*
Less than 9th Grade	9.6	6.4	7.8	6.6	7.9	7.8	6.2	12.2
9th to 12th Grade, No Diploma	14.5	13.8	15.3	11.5	14.8	12.6	12.4	14.5
High School Graduate (Including GED)	31.6	27.9	29.6	31.4	31.1	30.5	28.1	32.9
Some College, No Degree	20.0	23.9	22.0	26.6	21.2	20.3	21.3	18.7
Associate Degree	4.7	5.2	5.7	6.9	4.8	5.3	5.1	5.2
Bachelor's Degree	12.8	14.9	13.1	11.0	13.1	14.7	18.2	10.9
Graduate or Professional Degree	6.8	7.8	6.6	6.0	7.0	8.7	8.6	5.7
Percent High School Graduate or Higher	75.9	79.8	77.0	81.9	77.2	79.6	81.4	73.3
Percent Bachelor's Degree or Higher	19.6	22.7	19.7	17.0	20.1	23.5	26.9	16.6

*Bristol TN-Bristol VA, Johnson City, and Kingsport.

Source: U.S. Census Bureau, Census 2000 Summary file 3.

Table 4. Distribution of Employment by Industry for Tennessee MSAs

	Memphis	Chattanooga	Clarksville-Hopkinsville	Jackson	Knoxville	Nashville	Tri-Cities*
Manufacturing	8.6%	15.2%	17.4%	22.2%	11.8%	11.3%	19.7%
Trade, Transportation, and Utilities	28.4%	24.0%	17.7%	17.4%	21.6%	19.2%	19.4%
Information	1.6%	1.2%	2.0%	1.2%	1.7%	3.3%	1.8%
Finance	5.4%	7.8%	2.9%	2.9%	4.9%	6.2%	4.1%
Professional and Business Services	12.7%	10.9%	9.5%	8.4%	11.7%	14.0%	7.8%
Educational and Health Services	12.0%	9.4%	10.7%	11.6%	10.4%	13.6%	13.3%
Leisure and Hospitality	8.6%	7.8%	9.0%	6.9%	12.3%	10.1%	8.9%
Other	22.8%	23.7%	30.8%	29.4%	25.7%	22.4%	24.9%

Note: All data are from December 2003. Jackson is the exception and is a 2001 average.

Source: Tennessee Department of Labor and Workforce Development

Memphis, TN	"About 450 jobs at International Paper's Memphis offices will be cut by the end of 2004, part of a 3,000-position worldwide cutback by the world's largest paper company." —*The Commercial Appeal* September 9, 2003
Knoxville, TN	"Dan River Inc., the largest manufacturer in Sevier County, told state and local officials late Monday that it is closing its Middle Creek Road plant and eliminating 416 jobs early next year. Layoffs are expected to begin Jan. 9 and the textile plant is to be closed by March 1." —*Knoxville News-Sentinel* November 11, 2003
Knoxville, TN	"Lea Industries, a division of furniture maker La-Z-Boy, has announced it will close a Morristown plant and lay off 120 employees March 12." —*Knoxville News-Sentinel* October 7, 2003
Knoxville, TN	"The Tennessee Valley Authority is considering eliminating 600 to 800 jobs in a cost-cutting move that would represent the largest downsizing at the federal utility in a decade. TVA, a federal corporation based in Knoxville serving 8.3 million consumers in seven states, has offered early retirement incentives to its 13,245 employees. The number of workers willing to volunteer is unknown. TVA officials have said layoff notices, if needed, will go out April 22." —*Knoxville News-Sentinel* October 7, 2003
Knoxville, TN	"Hamblen County manufacturer Intercontinental Polymers Inc. said Friday it has stopped production, laying off all of its 150 employees." —*Knoxville News-Sentinel* October 18, 2003

Nashville, TN "Vought Aircraft Industries, lured to expand in Texas with a multimillion dollar package, will close its Nashville plant and move about 1,000 jobs to Dallas, the company said Thursday."

—*Knoxville News-Sentinel*
October 18, 2003

Continuing announcements of layoffs and plant closings have not been offset by the recruiting efforts of communities across the state. The support role played by the state's Department of Economic and Community Development is necessary, but not sufficient, to have a dramatic impact on job creation statewide. The state's "fast track" response program and even a rework of the workers' compensation program will make Tennessee more competitive, and all are clearly steps in the right direction, but will not result in job growth in the absence of a strong economy.

The principal factor that determines job growth in Tennessee is the growth of the nation's economy. To the extent that the job growth numbers in the first few months of 2004 reflect a period of expansion for the labor market that continues to gain momentum, the outlook for employment in Tennessee should be positive. It is true that all jobs are not equal and neither are the salaries involved. The loss of manufacturing and high-wage blue-collar and white-collar jobs is not offset by the gain of low-wage jobs in any sector. Workers involuntarily displaced frequently are not trained or educated enough to make the transition to new job opportunities. Most of the transition difficulties are strictly private—left to the workers and families to address. Federal, state, and local efforts offer support services but minimal aid as workers and communities adjust to layoffs and plant closures. Perhaps the best aid would involve expanding long-term economic development efforts designed to expand and diversify local labor markets. Easily accessible, affordable, and continual education and training programs are also an essential part of any effort to prepare workers and communities for the inevitable changes that occur in local labor markets.

The job growth that occurred in Tennessee in 2003 was a small step forward in a long recovery process for communities across the state. As Dr. Matt Murray, University of Tennessee economic forecaster, predicted:

> Businesses are beginning to make new investments again. With worker productivity already very high, a lot of companies will be needing to add workers this year to expand production.[2]

Job and income creation is the solution for the budgetary problems in Tennessee. Fixing TennCare is important, and making the program more efficient and effective is an essential part of controlling health care expenditures. But, fixing TennCare is not as important as creating employment and income opportunities for all of the citizens of Tennessee. Expanding investments in our future through dramatically expanded expenditures on education and training is the only way to make TennCare affordable in the long run. Tennessee must work harder to reduce the need for TennCare through efforts to create jobs and by increasing investments in education and training. High-wage and high-income workers do not typically qualify for TennCare and can afford to pay the taxes to support a program for those who do need it.

If the early signs of a stronger recovery in 2004 hold true, job creation in Tennessee should have a net positive impact on many communities. Concern remains for the numerous communities that will be left behind as the expansion gains momentum. Special attention should be provided for communities unable to grow during this recovery period.

Clearly, the tax burden in Tennessee remains among the lowest in the nation (Table 5). The failure to invest in the future of the state will do lasting harm to our ability to compete for jobs in the future. Lost generations of poorly educated students cannot be reclaimed. The time to invest in Tennessee's future is now.

[2]Dave Flessner, "Despite Closings and Layoff, Business Sees Stronger Economy," *Chattanooga Times Free Press*, February 17, 2004.

Table 5. State Rankings in Order of Heaviest to Lightest Tax Burden, 1999 and 2004*

	Rank 2004	Rank 1999	State	Tax Burden*		Rank 2004	Rank 1999	State	Tax Burden*
11.0% and Higher	1	2	New York	12.9%	9.0%-9.9%	26	11	California	9.8%
	2	1	Maine	12.3		27	16	Iowa	9.8
	3	14	Ohio	11.3		28	29	Montana	9.8
	4	4	Hawaii	11.3		29	10	New Mexico	9.7
	5	8	Rhode Island	11.1		30	43	Nevada	9.7
	6	3	Wisconsin	11.1		31	34	North Carolina	9.7
10.0%-10.9%	7	9	Utah	10.8		32	32	Illinois	9.7
	8	17	West Virginia	10.6		33	21	North Dakota	9.7
	9	7	Connecticut	10.6		34	37	Oregon	9.5
	10	5	Minnesota	10.5		35	35	Pennsylvania	9.4
	11	13	Idaho	10.4		36	27	Massachusetts	9.4
	12	6	Vermont	10.4		37	36	Virginia	9.3
	13	22	Michigan	10.2		38	39	Missouri	9.3
	14	18	Nebraska	10.2		39	38	Oklahoma	9.2
	15	12	New Jersey	10.1		40	40	Colorado	9.1
	16	33	Indiana	10.1		41	46	Alabama	9.1
	17	19	Kentucky	10.0		42	44	South Dakota	9.0
	18	26	Georgia	10.0		43	30	South Carolina	9.0
	19	20	Mississippi	10.0	8.9% and Lower	44	41	Wyoming	8.9
	20	24	Arizona	10.0		45	42	Florida	8.8
9.0%-9.9%	21	15	Washington	9.9		46	45	Texas	8.7
	22	23	Kansas	9.9		47	49	Tennessee	8.5
	23	31	Louisiana	9.9		48	47	Delaware	8.2
	24	25	Maryland	9.9		49	48	New Hampshire	7.5
	25	28	Arkansas	9.8		50	50	Alaska	6.3

*Rankings calculated based on income, property, and other state and local tax collections, as compiled from various governmental sources.

Notes: All state and local taxes are percentages of income. Percentages are rounded off, making some rankings appear to be ties.
Washington, D.C., tax burden in 2004 was 12.8%.

Source: The Tax Foundation.